

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Frommer Analyst: Deborah Barrett Bill Number: AB 2905  
Related Bills: See Legislative History Telephone: 845-4301 Introduced Date: February 24, 2006  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** ReadyReturn Program

### SUMMARY

This bill would allow Franchise Tax Board (FTB) to offer the ReadyReturn filing option to eligible taxpayers.

### PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to provide options to taxpayers to ease the filing burden placed on them and to maximize the use of efficient and cost effective technology.

### EFFECTIVE/OPERATIVE DATE

This bill would be effective upon enactment and, unless enacted as an urgency measure, would be operative as of January 1, 2007.

### POSITION

Pending.

### ANALYSIS

#### FEDERAL/STATE LAW

Current federal law mandates the IRS to increase the percentage of returns filed electronically by taxpayers. Through the IRS Free File Program, taxpayers that meet specific criteria, such as adjusted gross income under \$50,000 per year, can file electronic returns at no cost using private vendors to meet this objective. The IRS is prohibited from developing its own "income tax electronic filing or preparation products or services." The IRS lacks any filing option similar to ReadyReturn.

Current state law requires FTB to develop and make available forms for taxpayers that are as simple as possible for taxpayers to prepare. FTB is required to ease taxpayers' compliance burden in the form and design of tax returns. Current state law provides that ReadyReturn is to remain a pilot for FY 2005/06, unless later enacted legislation authorizes its continuance.

#### Board Position:

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_____ N	_____ OUA	<u>  X  </u> PENDING

#### Department Director

#### Date

John W. Davies  
for Selvi Stanislaus

3/24/06

## THIS BILL

This bill would allow the ReadyReturn Pilot to continue as a filing method option for eligible taxpayers. This bill provides that FTB may provide all eligible taxpayers with a ReadyReturn, as defined, which includes a record of the taxpayer's wages that have been reported by employers and the tax liability attributable to those wages reported.

The bill provides that if the ReadyReturn data is correct, the taxpayer may file the ReadyReturn, or disregard the ReadyReturn and file a return under any other acceptable method. The bill provides that no negative inference will be drawn from a taxpayer's decision not to file a ReadyReturn or to file under a different method.

The bill provides that if a taxpayer files a ReadyReturn, no late payment penalty will be assessed for any tax that should have been shown on the return that was not reflected in the return calculations. The bill further requires FTB to include information in available materials about the options and protections available to taxpayers in using the ReadyReturn.

Additionally, the bill provides intent language for FTB to make the effort to provide all taxpayers with access to wage data or other tax return information reported by third parties and maintained on the records of the FTB by January 1, 2009.

## IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department programs or operations.

## **LEGISLATIVE HISTORY**

AB 139 (Committee on Budget, Stats. 2005, Chap 74) authorized the continuation of the ReadyReturn pilot for the 2005/2006 tax year in the same manner as previously conducted, unless later enacted legislation authorizes its continuance.

SB 1355 (Haynes 2005/2006) would prohibit the FTB from sending out any completed, pro-forma, or ReadyReturn to any taxpayer subject to the Personal Income Tax Law on and after July 1, 2006. This bill was introduced February 21, 2006, and has not yet been heard in committee.

## **PROGRAM BACKGROUND**

On August 25, 2004, the three-member FTB directed FTB staff to develop and implement the ReadyReturn pilot. The objectives of the pilot were to reduce the filing burden on taxpayers, improve efficiencies in tax administration, and reduce operating costs for the department. The premise of the ReadyReturn was to use information already available to the department, such as W-2 information, to provide taxpayers their completed return for final approval and filing.

FTB staff deployed the ReadyReturn pilot in February of 2005. Approximately 50,000 taxpayers were invited to participate in the pilot based on characteristics commonly found on simple returns. Staff compiled returns for each taxpayer based on available data and sent the return to the selected taxpayer. The taxpayer was given the option to accept the return as completed by the department, adjust the compiled information to reflect information not captured by the department, or reject the proposed return and file using a traditional method. Approximately 11,000 ReadyReturns were filed under the pilot.

In June of 2005, FTB completed a preliminary study to determine the effectiveness of the ReadyReturn pilot. The majority of ReadyReturn online survey respondents, 95%, felt that ReadyReturn was a service that government should provide and expressed their willingness to participate the following year. Based on the results of the pilot and FTB staff recommendations, the three-member Board unanimously voted on June 15, 2005, to make the ReadyReturn pilot permanent.

On July 19, 2005, Assembly Bill 139, one of the budget trailer bills, was chaptered (Stats. 2005, Ch. 74). AB 139 included provisions that authorized the continuation of the ReadyReturn pilot for FY 2005/06, unless later enacted legislation is passed authorizing its continuance.

### OTHER STATES' INFORMATION

The states surveyed include *Michigan, Massachusetts, Illinois, Minnesota, and New York*. These states were selected due to their similarities to California's economy, diversity of taxpayers, and tax laws. While these states generally provide opportunities for taxpayers to file electronic returns as well as paper returns, there is no indication that these states provide pro forma returns for any population of taxpayer.

### FISCAL IMPACT

ReadyReturn will reduce FTB operating costs with graduated savings occurring annually beginning in FY 2007/08. The savings attributed to full implementation of ReadyReturn are shown in the table below:

	<b>READY RETURN YEARLY COST/BENEFIT</b>			
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Projected Volume	30,000	90,000	160,000	230,000
One Time IT Cost	\$171,000			
Yearly Cost	\$108,000	\$122,000	\$126,000	\$129,000
Yearly Benefits	\$92,000	\$212,000	\$282,000	\$306,000
<b>Yearly Net Savings to the State</b>	<b>(\$187,000)</b>	<b>\$90,000</b>	<b>\$156,000</b>	<b>\$177,000</b>

The projected volumes are based on an increasing visibility to the ReadyReturn program. The department anticipates an overall net savings of approximately \$236,000 over a four year period with ReadyReturn permanency.

### ECONOMIC IMPACT

This proposal would not significantly impact state income tax revenues. Department staff is completing a supplemental report on ReadyReturn. Depending on the conclusions of that supplemental report, this analysis may be amended to provide relevant information.

## **ARGUMENTS/POLICY CONCERNS**

It is appropriate for government to provide ReadyReturn as a filing option because government imposes the burden to prepare and file a tax return. This proposal would promote fair and effective tax administration by increasing the ease of filing returns while capitalizing on opportunities to improve efficiency through the use of electronic processes and services.

## **LEGISLATIVE STAFF CONTACT**

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